

FISCAL NOTE

HB 766 - SB 1054

March 13, 2005

SUMMARY OF BILL:

- Enacts the *Sales Tax Relief on Food Act of 2005*.
- Requires at the close of each fiscal year any surplus state revenue not to exceed \$39.0 million be deposited into the *Sales Tax Relief on Food Fund* (FF).
- Requires any surplus to be certified by the Commissioner of the Department of Finance and Administration (F&A), in consultation with the Commissioner of the Department of Revenue (DOR), and reported to the Governor, Speaker of the Senate, Speaker of the House, and the State Treasurer.
- Requires any funds in the FF be used exclusively to provide a system of sales tax relief to citizens of Tennessee on the purchase and consumption of food and food products and to fund any administrative expenses reasonably necessary to provide such tax relief.
- Requires any amount in the FF on July 1 of any year that is equal to or greater than the amount of revenue generated by one-quarter of one percent (0.25%) of revenue generated by the sales tax levied on food and food ingredients be transferred from the FF to the General Fund and such rate of taxation on food and food ingredients be permanently reduced by the same percentage.
- Requires the commissioner of the DOR to publish any new sales tax rate on food no later than June 1 of each year.
- Requires any interest accruing to the FF be credited to the FF.
- Authorizes continued reductions in the state sales tax rate on food and food ingredients until sales tax on food and food ingredients is eliminated.
- Requires any balance in the FF following the elimination of sales tax on food and food ingredients be transferred to the General Fund.
- Requires this act to be repealed following the elimination of sales tax on food and food ingredients.

ESTIMATED FISCAL IMPACT:

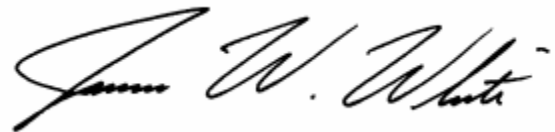
Other Fiscal Impact - To the extent the state realizes surplus revenues from year-to-year, transfers the surplus to the FF, and the FF balance accumulates to an amount requiring transfer(s) to the General Fund with offsetting sales tax rate reduction(s) on food in increments of 0.25%, state sales tax revenue will decrease by increasing amounts over time. For every one-quarter of one percent reduction in the state sales tax rate on food, the General Fund will realize a one-time increase in revenue estimated at \$17.5 million to offset the initial year reduction in tax revenue. In subsequent years following every 0.25% rate decrease, net state tax collections will decrease by an amount estimated to exceed \$14.5 million per year. After the sales tax on food has been eliminated, net state revenues will decrease by an amount estimated to exceed \$346,000,000 annually. Since this revenue is currently allocated for various purposes, such as education and local governments (via state-shared taxes), revenue earmarked for these purposes would decrease as well.

Assumptions:

- State sales tax collections on food are estimated at \$420.0 million per year at current rates.
- Tax base on food is estimated at \$7.0 billion ($\$420.0 / 6\%$ rate on food = \$7.0 billion).
- Population remains constant.
- Food prices remain constant (0% inflation).
- To the extent the state realizes a surplus in revenues from year-to-year, transfers any surplus amount (not to exceed \$39.0 million) to the FF, and the FF balance accumulates to an amount requiring transfer(s) to the General Fund with offsetting sales tax rate reduction(s) on food in increments of 0.25%, state revenues will decrease by increasing amounts over time.
- For every one-quarter of one percent reduction in the state sales tax rate on food, the General Fund will realize a one-time increase in revenue estimated at \$17.5 million to offset the initial year reduction in tax revenue. In subsequent years following every 0.25% rate decrease, net state tax collections will decrease by an amount estimated to exceed \$14.5 million per year.
- Each \$17.5 million in tax savings realized by Tennessee consumers would generate additional consumption expenditures on other sales-taxable items.
- Economic multiplier of 2.5.
- Each 0.25% sales tax rate reduction on food would increase state sales tax revenues on other taxable items by an amount estimated to be \$3.0 million.
- Eliminating all sales tax on food would eventually increase state sales tax revenues on other taxable items by an amount estimated to be \$73.5 million.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director